



Carlos Jackson
Executive Director

COMMUNITY DEVELOPMENT COMMISSION

County of Los Angeles

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October 12, 2004

Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Honorable Board of Commissioners
Community Development Commission
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors and Commissioners:

**AUTHORIZE THE SUBMISSION OF ECONOMIC DEVELOPMENT INITIATIVE
GRANT APPLICATION FOR THE CITY OF COMMERCE (1)
(3 Vote)**

IT IS RECOMMENDED THAT THE BOARD OF SUPERVISORS:

1. Find that the submission to the U.S. Department of Housing and Urban Development (HUD) of an amended Economic Development Initiative (EDI) grant application is exempt from the California Environmental Quality Act (CEQA), as described herein, because the proposed action will not have the potential for causing a significant impact on the environment.
2. Approve the submission of an amended EDI grant application by the County of Los Angeles to HUD to receive \$1,000,000 in EDI

grant funds for the purposes of assisting the City of Commerce to finance property acquisition and construction improvements to the Commerce Industrial Center, located at 4000 Noakes Street in the City of Commerce.

3. Authorize the Executive Director of the Community Development Commission, acting on behalf of the County, to submit the amended EDI grant application to HUD, and to take any other HUD-required actions necessary to complete the application.
4. Authorize the Executive Director, acting on behalf of the County and following HUD approval of the amended EDI grant application, to execute an amended EDI Grant Agreement and all related documents, and to take all HUD-required actions to receive the grant funds, following approval as to form by County Counsel.

IT IS RECOMMENDED THAT THE BOARD OF COMMISSIONERS OF THE COMMUNITY DEVELOPMENT COMMISSION:

Authorize the Executive Director of the Community Development Commission, following approval by the U.S. Department of Housing and Urban Development (HUD), to receive from the County of Los Angeles \$1,000,000 in Economic Development Initiative (EDI) Grant funds awarded to the County by HUD, for the purposes of assisting the City of Commerce to finance property acquisition and construction improvements to the Commerce Industrial Center, located at 4000 Noakes Street in the City of Commerce; and authorize the Executive Director to incorporate the grant funds into the Commission's approved Fiscal Year 2004-2005 budget.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION:

The proposed amended grant application will enable the City of Commerce to obtain funds from HUD to assist in financing improvements at the Commerce Industrial Center.

FISCAL IMPACT/FINANCING:

There is no impact on the County general fund. Following approval by HUD, the Commission will incorporate the \$1,000,000 EDI grant funds into the approved Fiscal Year 2004-2005 budget, for the purpose of administering the EDI grant.

The EDI grant regulations require that Section 108 loan proceeds be used in conjunction with the EDI grant. Therefore, the Commission will return to the Board at a later date to request approval to submit a \$10,000,000 Section 108 loan application to

HUD under the Section 108 loan guarantee program to leverage the \$1,000,000 EDI grant funds.

The \$1,000,000 EDI grant will be used for interest payments on the companion \$10,000,000 Section 108 loan. The EDI grant and Section 108 loan funds will leverage approximately \$16,000,000 in developer equity and private funds. This presents a leverage factor of approximately 1.45 times the federal investment of EDI and Section 108 loan proceeds.

Upon award of EDI grant funds by HUD, the Commission will execute an amended EDI Grant Agreement and other documents, as required by HUD, to receive the funds. The Commission, on behalf of the County, will serve as administrator of the EDI grant funds, which will be passed through to the City, as a subrecipient.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS:

On February 24, 2000, HUD issued a Notice of Funding Availability for EDI grant funds for the redevelopment and revitalization of economically distressed areas. On May 9, 2000, the Board approved the submittal of an EDI application to HUD for the development of an economic development project in the City of Commerce.

Subsequently, the County was awarded the \$1,000,000 in EDI grant funds in September 29, 2000. Since the previous economic development project was unable to proceed due to unfavorable market conditions, the City of Commerce is interested in utilizing the \$1,000,000 in EDI grant funds and the Section 108 loan to finance improvements to the Commerce Industrial Center. Therefore, an amended EDI grant application must be submitted to HUD identifying the new project.

The City of Commerce City Council approved the submittal of the amended EDI grant and Section 108 loan applications on July 6, 2004. The proposed project involves the provision of financial assistance through the City of Commerce to DART Entities (DART), a warehousing, food processing, and distribution business. DART's facilities are situated within the Commerce Industrial Center, located at 4000 Noakes Street in the City of Commerce. The proposed improvements will consist of three components, including property acquisition and construction of new buildings for the expansion of DART's operations within the Commerce Industrial Center.

The first component of the project is the acquisition of an existing 175,000 square foot building adjacent to DART facilities. The acquisition of the existing building will retain approximately 400 full time equivalent jobs that would have been lost due to the planned relocation by the current occupant to outside of the Los Angeles area. The second component will consist of the construction of a new 72,000 square foot refrigerated food processing building within DART facilities, which will be leased to a major seafood manufacturer. The third component of the project will consist of property acquisition to develop a second refrigerated building of approximately 72,000 square

feet. DART is currently in discussions with food manufacturers for the leasing of this facility.

It is estimated that approximately 700 jobs will be created between the two new buildings, principally for low- and moderate-income residents of the County. The proposed project will enable the City to retain existing jobs, and stimulate its overall economy through recruitment of new businesses and creation of new employment opportunities for low-and moderate-income persons.

The amended EDI grant application is attached. County Counsel has reviewed this letter.

ENVIRONMENTAL DOCUMENTATION:

The submission to HUD of an amended EDI grant application is exempt from the provisions of the National Environmental Policy Act (NEPA), pursuant to 24 Code of Federal Regulations Part 58, Section 58.34 (a)(3) because it involves administrative activities that will not have a physical impact or result in any physical changes to the environment. The action is not subject to the provisions of CEQA pursuant to State CEQA Guidelines 15061 (b)(3) because it is covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Following HUD's approval on the requested funds, the Commission will return to the Board at a later date to request approval of the necessary environmental documentation.

IMPACT ON CURRENT PROJECT:

The activities contained in the amended EDI grant application will benefit low- and moderate-income residents of the County through job creation and retention.

Respectfully submitted,

CARLOS JACKSON
Executive Director

Attachments: 1

COUNTY OF LOS ANGELES

Economic Development Initiative Grant Amendment Request B-98-ED-06-0042

NARRATIVE

The City of Commerce has endured economic shock waves over the last 20 years far more severe than those created during Southern California's earthquakes. This is a City that has been severely impacted by economic trends that were beyond its control.

In the late 1970's and early 1980's the City had a series of major plant closures. Those included U.S. Steel, Chrysler Corporation, B.F. Goodrich Tires, Uniroyal Tires and many smaller plants. During the same time the prestigious Fluor Corporation, one of the world's largest engineering firms, abandoned its headquarters in Commerce and built a new facility in Orange County. From 1978 through 1992, over 17,300 manufacturing jobs were lost as documented in the City's Economic Strategy and Marketing Plan prepared in 1992.

The City was barely recovering from the impact of the plant closures, when the California Recession from 1989 through 1995 took its toll on the City. That recession, the worst since the Great Depression, brought on a new wave of plant closures in the City, including the Lever Brothers plant in 1992. A great number of jobs were lost with an adverse impact on the community. With the economic decline of the early and mid-nineties, Commerce suffered an increase in vacant and underutilized buildings. These vacant buildings are just beginning to see resurgence in use and expansion. DART Entities is an example of companies looking to stay and expand within the City. With the economy still uncertain through the late nineties and with the transition of industrial development to the inland areas, businesses were hesitant to expand and new businesses were concerned about investment in central cities. This sentiment has continued in both the industrial and commercial sectors.

As might be expected, these economic shock waves had a devastating impact on a City of only 13,800 people. The City's tax revenues declined to an extent that critical services were strained. While Commerce will always primarily be an industrial City, it has striven to provide new and better housing, public facilities and services for its residents, of whom nearly 95% are minorities. The City has plans to diversify its tax base; however, those projects take time to implement. Meanwhile, the City is focusing on renewing its core industrial base.

The City's best opportunity to rebuild its industrial sector is the expansion of a business that has been loyal to Commerce for more than 60 years. DART Entities started in 1938 and has continually expanded its operations in Commerce, where it now has in excess of one million square feet and is the headquarters facility.

This proposed project to be assisted by a Section 108 loan and EDI funds includes the construction on property DART currently owns. The construction will consist of a new 72,000 square foot custom refrigerated food processing building that will be leased to a major seafood manufacturer in Southern California. The projected costs for the new building, including the land, are approximately \$9.9 million. DART will also purchase an existing 175,000 square foot building currently owned by a major paper products company for \$6,250,000. The acquired building will then be leased back to the paper products company in order to provide them with needed capital for expansion of their paper products manufacturing activities at the site. That firm has provided the City with a letter that they would need to locate out of the Los Angeles area to accommodate their expansion needs were it not for our program to purchase and lease back their building. The third component of the proposed project will be the acquisition of an adjacent 90,000 square feet of property on which a second 72,000 square foot custom refrigerated food processing building will be constructed and leased. This property, while

immediately adjacent to DART, is located in the unincorporated area of the County and will require the relocation of two existing business, two apartment buildings and two duplexes. That construction will follow upon the completion of the seafood processing building and acquisition of the paper products building. DART is currently in discussions with food manufacturers for that facility. DART is expected to spend an estimated \$9.9 million on that component. Between the two new buildings and the acquisition of an existing building will create a projected 700 new full time equivalent jobs and retain 400 jobs.

This EDI grant application meets all of the rating factors. Commerce is a very capable City. The City and its Redevelopment Agency have been instrumental in bringing 20 new projects to the community, including the retrofit or total clearance of all the six large closed manufacturing plants. The City participates in the Los Angeles Urban County Community Development Block Grant (CDBG) Program, which is the largest Urban County program in the nation.

Both the City and target area for this project have severe distress factors. For example, according to the 2000 Census, the unemployment rate was 14% in the target area and 13% for the City; both figures more than twice the national average of 5.77%. According to the 2000 Census data, the poverty rate for the target area was 28%, or more than twice the national average of 12.38%. The Citywide poverty rate was 17.9%. An indicative statistic of the poverty rate is that just under 74.7% of the population in the target area of 18 years and older in age, did not graduate from high school.

The proposed project is very sound due to the employment benefits it will provide to the City and the target area. The building being purchased ensures that a paper products manufacturer stays in Commerce with its 400 jobs; and the build to suit building for the seafood processing company provides a new facility for a leading and very substantial seafood processor in the Los Angeles area that will create jobs.

As part of the underwriting process, the City has determined that the \$10 million in Section 108 loan funds are best used for 80% of the purchase of the building from a paper products company and as a portion of the construction costs for the seafood processing building. The \$1 million of EDI funds will be used to pay the first two year's interest on the Section 108 loan. The leverage ratio between the Section 108 loan and EDI grant is 10 to 1. Additional private funds from DART Entities and the tenants (FF&E) total \$17 million. The leverage ratio of private funds to the EDI funds is 17 to 1.

The uses for the Section 108 and EDI funds meet the criteria under section 24 CFR 570.208 (a)(4)(i)(ii) – Job creation and retention activities. The eligible activities to be undertaken with the Section 108 funds are eligible under 24 CFR 570.703(i)(1) – Special economic development activities.

The effort to bring the proposed project to Commerce has been comprehensive and coordinated. As early as 1992 the City commissioned an Economic Strategy and Marketing Plan. Components of that plan evolved over the next eight years. The City and DART Entities have ensured to incorporate the appropriate partners to properly coordinate the implementation of this proposed project. The partners involved in this proposed project are ready to proceed with the implementation of the activities upon receiving the Section 108 loan funds and the EDI grant funds.

Commerce is striving to reverse the trend of losing manufacturing jobs, which has been the pattern for 30 years. This project accomplishes the above by retaining an important existing manufacturer and by bringing in a well-established manufacturer to create jobs in the community. The EDI grant funds and the Section 108 loan are critical to making the project a reality.

RATING FACTOR 1: CAPACITY OF APPLICANT

1. Capacity to Implement

The City of Commerce and its Redevelopment Agency have shown incredible capacity in implementing past projects. The City has qualified economic and redevelopment staff that has been fundamental in attracting projects to the City, given the challenges that face an industrial city.

The City has participated in the CDBG program through the Los Angeles Urban County CDBG program, (administered by the Community Development Commission of the County of Los Angeles (CDC)), since the inception of the program in 1974. The CDC is applying on behalf of the City for the EDI and Section 108 funds. The City's Current 2004/2005 CDBG program year allocation is \$218,771, which funds a variety of activities including public improvements, public service activities, and a commercial façade improvement program.

a. Performance in administering CDBG and other programs

The City has a record of effectively using its CDBG funds to fund a variety of activities for its residents. Participation in the Home Investment Partnerships (HOME) Program is also done through the CDC. The Redevelopment Agency also uses its 20% property tax increment housing set-aside funds to foster housing programs. Programs currently being carried out with the City's 20% property tax increment set aside funds include 60 units of affordable housing that include single family homes, duplexes, townhomes and subsidized apartments for physically handicapped. The City will commence construction on a 40 unit single family home project that will provide 12 units for low-and moderate-income first time homebuyers. With the implementation of the above projects, the City demonstrates it has sufficient experience and capacity to execute the propose project.

The County of Los Angeles, through the CDC, administers the largest Urban County CDBG Program in the nation. The CDC has extensive experience and capacity in administering over 1,200 CDBG funded activities annually, including housing, community development and economic development projects, throughout the unincorporated areas of the County, as well as 48 participating cities.

b. Previous experience with Section 108 program

The City has not previously utilized the Section 108 program. The CDC has funded nine Section 108 loans with cities participating in its Urban County program. The CDC has also participated in two Brownfields Economic Development Initiative grants (BEDI) and two EDI grants with participating Urban County cities. The CDC has successfully administered the Section 108 loans issued to date by remitting the loan payments to HUD on time, ensuring the funded projects meet all regulatory compliance, and maintaining the required supporting documentation on file. To date, HUD Los Angeles Area Office has monitored the CDC Section 108 loan program and no findings or deficiencies have been identified.

c. Performance and capacity in carrying out economic development project

It is fair to say that not many other cities in the nation the size of Commerce have as much experience and success in carrying out economic development projects. The experience goes back to the late 1970's and early 1980's when the City experienced the series of plant closures. Each site was either retrofitted for a different use or the sites were "scraped" and

redeveloped. Such was the case with the U.S. Steel, American Bridge Division 110 acre site. With the assistance of a \$6.9 million Urban Development Action Grant (UDAG) the site was demolished and is now a business park totaling over 2 million square feet. The UDAG funds, originally made as a loan to the developer, have been "recycled" twice for other key economic development projects. Other key sites were the Chrysler Plant, the B.F. Goodrich Tire site and the Uniroyal Tire site. The latter project was actually acquired by the City, which then facilitated the development of the Citadel complex, with a 146,690 square foot outlet mall, a Wyndham Hotel and office building. During the last recession, the complex went through some tough times and the City again stepped in and purchased it. The City completed negotiations with a new developer, who subsequently purchased the complex. The new developer has completed a Phase II expansion of 125,000 square feet of retail space in the outlet mall, which has resulted in the addition of name companies, including Starbucks and Van Heusen. A Phase III expansion of \$125,000 is planned during the next four years. The City has carried out no less than 20 redevelopment projects successfully. Retail sites have included the Home Depot and 33 national tenants at the Citadel. The City has also used EDA funding to assist in development projects.

The City is also embarking on the development of an additional 350,000 square foot retail center with a big box user, theater, and retail/restaurants. Several smaller retail developments, including the Washington-Atlantic Center have provided revitalization and infill development in deteriorated commercial corridors.

d. Ability to conduct prudent underwriting

Many projects implemented by the City have required prudent underwriting. As HUD is aware, the underwriting had to be detailed and complete in order for the City to secure UDAG funds for the U.S. Steel Plant. The same careful underwriting has continued for all the other projects. The underwriting process requires detailed evaluations of the total land assembly costs, including acquisition, relocation, the purchase of fixtures, the payment of goodwill under California law, demolition, site remediation and off-site improvements. With that completed, the developer must provide detailed development and operating proformas. The City staff, with the help of outside consultants, evaluates each aspect to determine that the cost and rents are in line with the Southern California market. With that evaluation completed, the economic gap is determined. The appropriate public assistance program is identified and then structured to meet the need.

Detailed underwriting occurred as the Redevelopment Agency negotiated the Citadel ground lease, the development of the outlet mall, the development of the Wyndham Hotel, the development of the office building at the Citadel complex, and the Home Depot development. In just the last few years economic development deals have been negotiated with American De Rosa Lamparts, Inc., Escon Door Company, Arthurnmade Plastics, Inc., Gordon Brush Manufacturing Co. Inc., Ernest Paper Products, FileKeepers, ICI Paints, Smart & Final, Union Ice, and the Washington Atlantic Commercial Center.

The CDC, as part of its Section 108 loan activity and the Float Loan Program, has the expertise and experience in loan underwriting and use practices that are in compliance with HUD requirements. The CDC exercises prudent underwriting when reviewing the feasibility of the proposed project, stability of repayment and collateral sources. To date, the Section 108 loans issued by the CDC have performed financially well.

e. The capacity to service loans

As noted above, the UDAG funds were provided to the developer as a loan, secured by a promissory note and deed of trust. The loan was paid in full, and twice the City has used the UDAG funds. The City administers a housing assistance loan program on an ongoing basis, and the Redevelopment Agency has provided loans in three cases as economic incentives. All of the loans have been properly administered and are still being serviced. The CDC currently services all Section 108 loans issued to date, and all Section 108 loans are current. Within the past two years, three Section 108 loans have been paid in full as scheduled.

f. Capacity to carry out projects in a timely manner

All of the projects identified in subsection "d" above were carried out in a timely manner. The City works with potential new manufacturers or developers in a coordinated fashion, dealing with zoning and building issues, concurrently with the processing of approvals and plans. Since "time is money," the fast tracking of plans and approvals is provided as an important incentive to businesses. However, financial incentives have been used on many occasions. The mixed-use Citadel development project is a good example of a large development project that was carried out in a timely manner. From the time the ground lease was approved with the developer, the 146,960 retail portion of the project was opened 13 months later, with the 270,651 square of office buildings opening six months later, and the Wyndham Hotel completed eight months after that. The large mixed-use project was completed in a total of 28 months. Another example is the Home Depot project, which was developed within 18 months.

g. Management of funds in conjunction with an Empowerment Zone/Enterprise Community (EZ/EC).

The site is not within a HUD designated EZ or EC.

2. Previous EDI or BEDI experience

The City was awarded an EDI grant in 2000. The proposed retail and entertainment project has not been able to proceed, hence this amendment request. As noted above, the County has extensive experience with EDI funding including the award of two EDI and two BEDI grants for Urban County participating cities. With the exception of this EDI, the other EDI and BEDI projects are complete or in process.

3. Capacity of sub-recipients

The County is the applicant for the EDI and Section 108, on the behalf of the City. The City is the sub-recipient, but will loan the Section 108 funds to DART Entities for their expansion program in Commerce. The City will retain the EDI funds for the initial year's interest payments on the Section 108 loan.

DART Entities started in 1938 with one truck, driven by father and son. It now operates in approximately 10 million square feet of warehousing, distribution, food processing and cold storage space, of which about four million square feet it owns. In the last five years DART Warehousing, one of its divisions, has developed and owns three buildings in Ontario of 230,000, 824,000 and 325,000 square feet respectively; four in Los Angeles of 200,000, 117,000, 50,000 and 70,000 square feet respectively and one in Naperville, Illinois of 721,500

square feet that houses the most sophisticated materials handling equipment in the industry. The DART companies provide a variety of services including catalog fulfillment, transportation, third party logistics, equipment leasing and warehousing, with facilities in California, Illinois, Indiana, Colorado, Texas and Georgia. In addition to the building operations, sister company DART INTERNATIONAL, operates a fleet of 1,300 trucks. Within all the affiliated companies of DART Entities, it has 750 employees. Based on the accomplishments and experience of DART Entities, the sub-recipient of the Section 108 loan funds, the City is confident that DART will implement the proposed Section 108 loan funded project successfully. Dedeaux Properties is a subsidiary of DART Entities, and it will be the end recipient of the Section 108 loan funds.

RATING FACTOR 2: DISTRESS/EXTENT OF THE PROBLEM

The target area exhibits substantial distress. The census tract and block groups that make up the site are those where the project is located and the ones that immediately about the site. They are CT 2049.20, BG 2; CT 5313.02, BGs 3, 4, 5, 6 and 7 and CT 5323.02, BG 4.

1. Distress in Project Census Tract Compared to Citywide and County

The businesses located in the City of Commerce have historically provided a significant number of jobs to not only City residents, but to individuals in the surrounding areas. In the past, the City had a significant number of well-paid manufacturing jobs. Over the years, these large employers have gone out of business or left the area, which has had a devastating economic impact on the City. In 1993, the City prepared an Economic Development Strategy and Marketing Plan. The study indicated a long-term economic decline for the City based on the reduction of its industrial sector. "In 1960, Commerce had 80,000 jobs, in 1978, it had 65,000 jobs; in 1992, it has 47,700 jobs. From 1960 to 1978, the City lost 15,000 jobs, at an annual rate of 833 jobs over 15 years. From 1978 to 1992, the City lost 17,300 jobs. This is an annual loss of 1,235 jobs. . ". The impact of less employers and jobs was reflected in the 1990 census numbers.

While the City of Commerce was reflective of the State's poor economic conditions as a whole, a number of businesses continued to leave the City. During 1993 and 1994 alone, Lever Brothers (300 employees), Radisson Hotels (150 employees), Waste King (39 employees), Birch Wood (71 employees), American Metals (125 employees), Crown Zellerbach (128 employees), and International Paper (130 employees) went out of business or relocated. Pacific Tube closed down in 2001 (300 employees).

While the City of Commerce is only 6.6 square miles in size, it is located in the middle of the one of the heaviest urbanized areas in Los Angeles County. The entire City is contained within only three census tracts.

The summary information from the 2000 Census for the target area is noted below:

Census Tract	Persons	Total	Total			
	Below	Persons	% In	Total	Civilian	%
	Poverty	in	Poverty	Civilian	Unemployed	Unemployed
CT 2049.20						
BG 2	171	681	25.1%	285	78	21.5%
CT 5313.02	198		30.7%		13	4.5%

BG 3		644		279		
BG – 4	449	1,660	27.0%	574	64	10.0%
BG – 5	201	927	21.7%	356	68	16.0%
BG – 6	218	972	22.4%	292	63	17.7%
BG – 7	753	2,266	33.2%	844	108	11.3%
CT 5323.02						
BG 4	83	314	26.4%	79	16	16.8%
Totals	1,255	4,479	28.0%	1,571	255	14.0%
Citywide	2,223	12,404	17.9%	4,718	705	13.0%
Countywide	1,674,599	9,349,771	17.9%	4,307,762	354,347	7.6%

Based on the 2000 Census information, the poverty level for the target area was 28%, more than twice the national average of 12.38%; 17.9% citywide and 17.9% countywide. The unemployment level in the project target areas was 14%; again more than twice the national average of 5.77%; 13% for the City and 7.6% for the County. The per capita income in the target area was \$7,750 or only 36% of the national average of \$21,587. The per capita income was \$11,117 citywide and \$20,683 countywide.

The 2000 Census indicated that within the target area, 96.6% of the population was persons of Hispanic origin. This compares to 93.4% Citywide and 44.6% Countywide. Forty percent of the City's residents were foreign born, with 75% of the residents speaking Spanish, with 62% of these not speaking English, as compared to the County where only 35% of Spanish speakers are monolingual.

One of the most significant circumstances that impact the economic and social distress numbers is the level of education among the City residents. In the target area, those persons 18 years of age and over having not graduated from high school are 74.7%. This compares to the Citywide number of 54.2% and a Countywide number of 30.1%. A combination of the percentage of non-speaking English persons, coupled with the high percentage of persons who have not graduated from high school, are reflected in the high poverty and unemployment numbers.

2. Other Factors

In 1997, the Employment & Business Retention Office (EBRO), convened an Employment Task Force to address employment related issues. In 1999 they issued a Strategic Plan for Employment Taskforce Report whose findings included: “. . . the attraction of industries which would provide highly desirable jobs to Commerce is limited by the conditions of the buildings available to house their operations.” The HUD funding will help address the precise problems identified in the Strategic Plan, by constructing new, state-of-the-art manufacturing and freezer buildings that attract the “highly desirable jobs.”

3. Consolidated Plan and Analysis of Impediments to Fair Housing

The City participates in the Urban County CDBG program; therefore the CDC has the responsibility for the preparation of the Consolidated Plan and the Impediments to Fair Housing Report. As part of the submittal of this Application by the CDC on behalf of the City, the CDC will amend its Annual Action Plan as part of the Section 108 loan processing, to include the expansion of DART Entities campus project.

Some of the County's distress factors included in the Countywide Consolidated Plan are indicated above and in the previous Chart on Distress Factors. The proposed project meets key goals of programs geared towards assisting lower income persons through creation of new jobs.

While the proposed project itself will have no direct impact on fair housing, the new jobs being created will have an impact on the high unemployment numbers, and it will provide an opportunity to increase the income levels of unemployed persons including an opportunity to improve their housing conditions. With a large minority population, the City's Employment Referral Office will provide for ESL classes and other training in order to meet the tenants' employment needs. The project and related employment activities meet the above County identified policies to address some of the impediments to fair housing.

RATING FACTOR 3: SOUNDNESS OF APPROACH

1. Quality of the Plan

Despite the reoccurring trend of losing manufacturing jobs in Commerce, the City continues to support industrial projects, in particular this proposed project for its proactive approach in addressing the community needs and distress factors. Not only does it stop a good manufacturer from leaving the City, but it provides assistance for DART Entities to provide a new facility for an established Los Angeles based firm to expand in Commerce. In addition, DART Entities plans to add an additional facility in Commerce to capture some of the growing demand in the market. The proposed project will also address a few community needs by retaining jobs in the City and creating additional employment opportunities for low-and moderate-income persons.

The building being purchased ensures that the paper products manufacturer stays in Commerce with its 400 jobs. The firm is fully capable of paying the long-term lease it is entering into with DART. The new building that will be constructed will provide a new facility for a frozen foods meal solutions and seafood manufacturer. The demand for the manufacturing/freezer type buildings DART will construct for the seafood process company continues to grow, and the second new building will meet a portion of that demand.

DART is working on the predevelopment activities for the proposed project. DART is finalizing the purchase and lease back agreement with the paper products company and the lease agreement with a seafood processing company. The proposed project can be implemented without delays.

The plan meets the needs outlined in the section regarding distress in two ways. First, the project will generate 700 new jobs, while retaining an additional 400 jobs. The job generation summary is provided below:

For a City with 13% unemployment, the impact can be dramatic. The City has a labor force of 5,423 persons with 4,718 employed, based on the 2000 Census. If only 10% of the new jobs from the two new buildings go to Commerce residents the unemployment rate would drop to 11.7% or a decrease by 10%.

Second, the City is addressing the Strategy Plan issues by attracting new manufacturing businesses with jobs paying higher salaries than the minimum wage.

2. Feasible and likely to have success

There are a number of factors that favor success for the project. DART Entities already owns both development sites for the new buildings. There are no environmental conditions to deal with on the sites. The new tenant, the seafood processing company, is a strong, well-established manufacturer. The same is true with the manufacturer where DART Entities is purchasing the paper products manufacturing building and leasing it back. The sales proceeds from the sale of the building will allow the paper manufacturer to purchase new equipment in order to be more competitive in the market and secure additional contracts.

With the timely construction of the new buildings, the creation of jobs will follow quickly. The City has its own very successful Employment Center that has placed more than 10,000 persons since its inception in 1982. The Center coordinates with various agencies to provide necessary training to individuals that are unemployed, underemployed or receiving public assistance to secure employment. Special effort will be provided for the outreach, screening, training and placement of City and target area residents in the jobs to be created by the new tenants. The chart with the timeframes demonstrates how this project can be accomplished in a very short period, given the complexity of the project.

The following is the proposed project development schedule:

	<u>Start</u>	<u>Complete</u>
Agreement on sale of paper products manufacturing property	Nov 2004	Dec 2004
Construction of seafood refrigerated processing facility	Jan 2005	Oct 2005
Construction of second cold food processing facility	Nov 2005	July 2006

3. Regional Project

This submittal is not being done as a regional project.

4. Analysis of Impediments to Fair Housing Choice

The CDC, as the Urban County, has prepared the Analysis of Impediments (AI) to Fair Housing Choice. The key factor in the AI is the conclusion that “policies that promote economic development, education and fluency in English are likely to lower Latino segregation more rapidly than housing policies, per se”. This proposed project affords the greatest opportunity for Latinos to secure jobs. The City’s Employment Referral Office has been very effective in placing Latino residents of the City into new jobs. Those factors directly address the conclusions of the AI.

5. Welfare to Work

As noted above, the City has operated an Employment & Business Development Office (EBDO) (formerly the Employment Referral Office) for 24 years. EBDO was developed as part of an UDAG the City had received from HUD. The operation and benefits were so successful, the City has retained the operation over the years and they have placed over 10,000 persons in

jobs during that time. The EBDO is linked and has access to all Workforce Investment Act (WIA) funded job-training agencies, enabling them to provide specific job development training that may be required. The linkages include working closely with the State of California Employment Development Department, the Department of Public Social Services Southeast County GAIN Program regarding participants in the Welfare-to-Work program. The EBDO and these agencies jointly conduct large job fairs in the City and surrounding County area. The City also participates with the Rio Hondo Community College in employment training programs. The City's commitment letter addresses the efforts of the EBDO and the coordination it will facilitate. In the near future, the EBDO and the Small Business Development Center (SBDC) office, currently located within the City, will be located in one facility to facilitate access to their services.

As of FY 2002, the City began funding with CDBG funds the Employment and Business Development Computer Program, which provides computer training classes and facilitates specialized training upon request from various companies. The training is provided to unemployed City and County residents. The computer facility includes 20 computers with software to assist with resumes, as well as, Internet resources for job searches.

To ensure that DART, the existing business to be purchased and the two new businesses meet their employment needs, the City will require them to have language in all of their leases and sales agreements requiring that they work with EBDO for their hiring needs. This process will assist the City in maintaining the required supporting documentation for job creation and retention.

In addition to the services provided by EBDO, the City also provides citywide free bus services for City residents and operates a child daycare facility in which at least 60% of the program participants are City residents. Transportation and childcare are two of the major factors that have a substantial impact on Welfare to Work program participants. These services are available to City residents participating in the program including City residents employed by the tenants of this EDI assisted project.

RATING FACTOR 4: LEVERAGING RESOURCES/FINANCIAL NEED

1. Leveraging Section 108 Funds

The Sources and Uses Summary provides the details of the uses for the \$10 million in Section 108 funds and the \$1 million of EDI funds.

The funds to repay the Section 108 loan will come from the lease proceeds DART Entities will receive from the tenants. The projected lease payments from the three tenants totals \$2,406,000 annually, substantially greater than the annual debt service on the Section 108 loan, currently estimated at \$908,000 annually. The funds used to partially purchase the paper products building will result in income immediately, but the new building must be constructed and occupied before income will be received. For that reason, the \$1 million of EDI funds will be used to pay a substantial portion of the interest during the first two years. The Section 108 loan will be structured as interest only during the first two years, with the principal repaid over the remaining 18 years of the 20-year term.

With the Section 108 loan of \$10 million and the EDI grant of \$1 million, the leveraging ratio is 10 to 1.

2. Financial Feasibility

a. Project costs and financial feasibility

The developer of the project has provided the City with development and operating proformas. The proformas have been evaluated by City staff and by outside economic development consultants. The evaluation has examined all the hard and soft costs in the development proforma and determined to be consistent with industry standards. Those costs to be funded privately are summarized as follows:

The new construction for the 72,000 square foot seafood processing building is as follows. The construction costs for the second refrigerated building are projected to be the same as those for the seafood process company.

Seafood Processing Building Development Proforma

	Sq. Ft	Cost	Total
Land Cost	144,000	\$ 15.14	\$ 2,180,484
Building Costs	72,000	\$ 78.12	\$ 5,624,500
Soft Costs			\$ 1,170,747
Developer Fee, Costs & Fees			\$ 897,573
Total Project Costs			\$ 9,873,304
Less Equity (land contribution)			\$ 2,180,484
Amount to be financed			\$ 7,692,820
Section 108 Loan			\$ 5,000,000
Conventional Financing			\$ 2,692,820

Operating Proforma

Net Operating Income	72,000	\$ 11.39	\$ 820,000
Debt Service - Section 108			
18 years 6% (.0910 constant)			\$ 455,000
Conventional Debt Service			
25 years 9% (.1007 constant)			\$ 271,167
Total Debt Service			\$ 726,167
Net Income			\$ 93,833

Project Economics

Return on cost			8.31%
Cash on cash return on equity			4.30%
Value at 8.5 cap		\$ 9,647,059	
Loan to Value		0.80	
Debt Coverage Ratio		1.13	

Building Purchase and Lease Back Development Proforma

	Sq. Ft.	Cost	Total
Land and Building Purchase	175,000	\$ 35.71	\$ 6,250,000

Total Project Costs	\$	6,250,000
Less Equity - cash contribution	\$	1,250,000
Amount to be financed	\$	5,000,000
Section 108 Loan	\$	5,000,000

Operating Proforma

Net Operating Income	175,000	\$	4.08	\$	714,000
Debt Service - Section 108					
18 years 6% (.0910 constant)		\$			455,000
Total Debt Service		\$			455,000
Net Income		\$			259,000

Project Economics

Return on Costs					11.4%
Cash on cash return on equity					20.7%
Value at 9 cap		\$		7,933,333	
Loan to Value				0.63	
Debt Coverage Ratio				1.57	

Second Build to Suit Building Development Proforma

	Sq. Ft	Cost	Total
Land Cost	90,000	\$ 18.89	\$ 1,700,000
Building Costs	72,000	\$ 78.12	\$ 5,624,500
Relocation			\$ 500,000
Soft Costs			\$ 1,170,747
Developer Fee, Costs & Fees			\$ 897,573
Total Project Costs			\$ 9,892,820
Less Equity			\$ 1,978,564
Amount to be financed			\$ 7,914,256

Operating Proforma

Net Operating Income	72,000	\$	13.50	\$	972,000
Conventional Debt Service					
25 years 9% (.1007 constant)		\$			796,966
Net Income		\$			175,034

Project Economics

Return on cost					9.83%
Cash on cash return on equity					8.85%
Value at 8.5 cap		\$		11,435,294	
Loan to Value				0.69	
Debt Coverage Ratio				1.22	

The proforma shows that the project is feasible in terms of the loan to value and debt coverage ratio. For the two new developments, with a credit tenant, we have used the 8.5 capitalization rate. For the purchase, as the building is not new, but also has a credit tenant, we have used a 9 capitalization rate.

Clearly, another element of feasibility is whether there are tenants for the project. Both the key tenants for this project are committed, and DART Entities is in discussions with other food processors for the second build-to-suit building. The construction of the second building will commence as soon as the building for the seafood processing company is completed. With credit tenants, DART's equity and debt financing, the project becomes very feasible.

b. Amount of debt service reserve

The developer's proforma has two project components. For the building purchase and lease back, no debt service reserve is necessary, since the lease goes into effect at the time escrow closes on the purchase transaction. For the new building to be constructed, the EDI grant funds will provide interest payments during the construction period and the first year of operations.

c. Credit enhancement paid by EDI funds

The EDI funds are being used to pay the interest in the early years, including the construction period, not as a credit enhancement vehicle.

d. Program income from the project

Lease income will be used to repay the Section 108 loan.

e. Interest rate to third parties

The Section 108 funds will be loaned to DART Entities at the same rate to the City. The Section 108 loan funds will be drawn down using the interim financing mechanism, which is subject to the 3-month LIBOR rate plus 20 basis points. As soon as a public offering is available, the City will obtain fixed rates through HUD's public offering of notes.

f. Underwriting

The developer also provided the operating proforma for the two project components. The tenants of the activities will pay all taxes, insurance and maintenance on the building, so the rent does equate to the net operating income. The rents and costs were evaluated and found to be consistent with similar projects in Southern California. The City has reviewed the project proforma and had its staff underwrite the loan to insure feasibility, debt service capacity and rate of return. This careful and detailed underwriting is consistent with HUD's guidelines for underwriting economic development projects. Based on the marketplace in Southern California and the risk associated with the project, it has been determined that the appropriate return on cost for this project is 10% to 11%. The return on cost compares the total project costs against the net operating income (NOI), which is the income before debt service.

The operating proforma provided the building purchase and lease back has an 11.4% return on cost and the cash on cash return on the equity is 20.7%. The loan to value (LTV) is

63% and the debt coverage ratio (DCR) is 1.57. The economics of that project are market rate. DART Entities took an aggressive approach with the new building for the seafood manufacturer. The return on cost is 8.31%. The return on equity is low at 4.3%, but that is based on the land contributed, and it is owned free and clear, so the return on equity is not as important as where cash needs to be invested. The LTV is 80% and the DCR is 1.13. Given the credit tenant and the long-term lease, those economics are reasonable in the marketplace. The second build to suit development will achieve slightly higher rents than the initial building for the seafood manufacturer. The return on cost is projected at 9.83% and the cash on cash return at 8.85%. The loan to value is a strong 69% and the debt coverage ratio is 1.22.

3. Leverage Other Financial Resources

The Section 108 and EDI funds will be leveraged with other private resources. DART Entities will be contributing approximately \$2.1 million in land, \$3.3 million in cash and an estimated \$10.6 million in financing. With a total of other leveraged resources of \$16 million and the EDI funds of \$1 million, the leveraging ratio is 16 to 1.

The commitment letters from the various parties are provided as attachments. The letters include the following:

Commitment letter from the City

Commitment letter from DART Entities

Letter of interest from DART Entities' lender (U.S. Bank and Wells Fargo)

Letter from the City Employment Referral Office

RATING FACTOR 5: COMPREHENSIVE AND COORDINATED

1. Coordination of the Proposed Activities

The City and Redevelopment Agency of Commerce determined in 1992 to develop an Economic Strategy and Marketing Plan for the City. Many agencies, interest groups and citizens participated in the development of each study or planning effort. The City was determined to have a plan for implementation as the State began to emerge from the recession. At the same time, the Redevelopment Agency recognized the importance of retaining and providing new buildings for manufacturers. The activities in this application require and are the result of, a comprehensive and coordinated process. This project was coordinated to ensure that all of the involved project partners (DART, City, CDC, and City's EBDO) are ready to proceed with the project upon receiving the grant and loan funds. It is anticipated that this project will proceed on a timely basis given the level of coordination with all project partners.

2. Linkages

With an unemployment rate twice the national average, a key linkage is the mechanism that secures jobs for Commerce residents, particularly those that are unemployed, underemployed, and receiving public assistance. The City's EBDO has, for 24 years, been very effective in linking Commerce residents with employment opportunities. The EBDO is linked to all Workforce Investment Act funded job-training agencies, enabling them to provide specific job development training that may be required. They also work closely with the State of California Employment Development Department. The Department of Public Social Services Southeast GAIN Program provides Welfare to Work funds to the EBDO as part of their involvement in the

job placement program in Commerce. A requirement of the developer will be that tenants utilize the EBDO as part of their hiring programs at the Commerce Industrial Center in order to fill jobs with low-and moderate-income persons (Public Benefit Standards under 570.209). The EBDO will also be able to provide assistance with job training, as needed for the development.

While the Southern California Association of Governments is the Council of Governments (COG) that covers all of Southern California, the City is also a participant in Gateway Cities Council of Governments, which is a regional COG that includes 27 cities. The COG established Gateway Cities Partnership to define the regional agenda, to support the growth of industry and business, and to facilitate city and business collaboration. In its role as the regional economic collaborative for the represented cities, the Partnership has identified specific strategies to increase the number of jobs in the region. This project is desirable in the region, as it will increase the number of employment opportunities for the area.